



REDEVELOPMENT AGENCY NEXT STEPS



FALL 2009

REDEVELOPMENT BASICS

Redevelopment is the primary tool used by cities and counties in California to revitalize their downtown core. According to the California Redevelopment Association, “Utilized by over two-thirds of the Cities and one-third of the counties in the State, redevelopment has grown to be the largest locally-controlled and locally-funded economic development and revitalization program in the United States.” Unlike many of its state and federal counterparts, redevelopment agencies in the State of California do not need to rely on loan and grant programs in order to fund their many activities. This is primarily due to the fact that redevelopment offers a stable source of annual funding derived from annual property taxes which allows changes to take place over a longer period of time and, thereby, deal more effectively with the purpose of redevelopment – the elimination of blight.

Redevelopment is a process created to assist local governments in eliminating physical and economic blight from a designated Redevelopment Project Area and to achieve desired development, reconstruction and rehabilitation, including but not limited to: residential, commercial, industrial, and public infrastructure. The goal of redevelopment is to create a safe, economically viable and balanced project area that provides all of the socially desirable attributes communities want: sound public and private improvements, good jobs, safe places, strong commerce, recreational opportunities, decent and affordable housing, and increasing property values.

Overview and Purpose

At the conclusion of the World War II era, the general public and public officials at the local, state, and federal levels were concerned about the status of existing housing stock, the lack of affordable housing for returning soldiers, and the urban decay affecting many cities across the nation. The California Community Redevelopment Act was first enacted in 1945 as a means to address the deteriorated state of downtown areas as well as the affordable housing stock in California cities. Funding for the original program was primarily federal in nature and proved to be inadequate. The year 1952 proved to be a turning point for redevelopment in California when a state Constitutional amendment was approved by voters, approving a new financing mechanism that has come to be known as tax increment financing. Tax increment financing allowed redevelopment agencies to become less dependent on federal dollars and more independent, as this new form of financing was based upon increasing values of property created by activities of the redevelopment agency and the resultant private investments.

What is Blight?

All activities undertaken by Redevelopment Agencies are geared towards the elimination of blight. A Redevelopment Agency is able to use special legal and financial mechanisms to fight blight. This authority is granted to the Agency through the state of California's Health and Safety Code (Section 33000-et.seq.), also known as the California Community Redevelopment Law. The law requires that a Redevelopment Project Area must exhibit conditions of both physical and economic blight before any redevelopment activity can occur. Symptoms of economic blight include inability to develop vacant lots, high vacancy rates in existing commercial space, and high turnover in commercial space. Physical blight

may include graffiti, deterioration of buildings and property, irregularly shaped lots, and inadequate infrastructure to support development. The surveys and analyses of a proposed redevelopment project area must address whether or not these types of blighting conditions are present before a City Council can pass legislation permitting the use of redevelopment authority in that given area.



Tax Increment-General

In the year the redevelopment project area is adopted, the total property tax value within the Project Area is established as the base year value. Over the life of the Redevelopment Agency, the base year taxes continue to be distributed to the taxing agencies on the tax role in the same proportion as in "pre-redevelopment" years. Any increase in property tax revenue (above the base year value) generated within the Project Area is redirected to the redevelopment agency. These funds are called Tax Increment and they are available for re-investment in the project area and may be used to pay off any debt created in implementing the Redevelopment Plan. Tax Increment does not create new taxes; it simply redistributes the growth in the annual tax base.

Usually, the flow of Tax Increment to an agency will not be sufficient in itself to finance the full scope of redevelopment activities and development projects. Therefore, agencies issue bonds to capitalize the Tax Increment. These bonds are not a debt of the City or County and are repaid solely from Tax Increment revenues. As such, the issuance of Redevelopment Agency Tax Allocation Bonds does not require a vote of the people.

Tax Increment is annually allocated to an agency by the county auditor based upon statements of indebtedness and reconciliation. The statement of indebtedness must provide specific information regarding all debt incurred by an agency. The statement must also reflect available revenue as of the end of the previous year. The amount of tax increment paid to an agency is then calculated by the county auditor as the total debt minus the total available revenue at the end of the previous year. The statement of indebtedness is prima facie evidence of the loans, advances or indebtedness of an agency.

Tax Increment can only be used for “redevelopment activity.” Generally redevelopment activity includes planning, development, reconstruction, or rehabilitation of residential, commercial, industrial or commercial uses in the project area. Tax Increment may be used outside the project area when the land is publicly owned and the use benefits the project area or to fund affordable housing projects.

Affordable Housing Twenty Percent Set-Aside

In addition to eliminating blight, a Redevelopment Agency is also responsible for preserving or improving the supply of affordable housing available to residents of the Project Area. Without a supply of decent, safe, sanitary, and affordable housing in a Project Area, or serving the needs of a Project Area, redevelopment will not be successful. Redevelopment Agencies are required to set-aside 20% of their annual Tax Increment revenues for the purpose of increasing, improving, or preserving the community's supply of low income housing (for households earning up to 80% of Area Median Income as determined by the federal Department of Housing and Urban Development) and moderate income housing (for households earning between 80% and 120% of Median Income). Redevelopment Agencies must spend these funds for affordable housing, and they may be spent on such activities as land or building acquisition, new construction, rehabilitation, onsite or offsite improvements, and grants or loans to providers or purchasers of affordable housing.

For project areas adopted after 1975, additional housing requirements are imposed on agencies. Those obligations include: (i) inclusionary housing wherein at least 15% of all new and substantially rehabilitated dwelling units built within a project area developed by public or private entities must be affordable and occupied by low and moderate income families, (ii) when residential units housing persons of low or moderate income are destroyed or removed from the market as part of a project for which there is an agreement with the agency or funding, the agency must replace the units within the jurisdiction within four years of the destruction and the agency must adopt a housing replacement plan, and (iii) relocation assistance.

SANTA BARBARA REDEVELOPMENT AGENCY FORMATION

The Redevelopment Plan for the Central City Redevelopment Project Area (CCRP) was adopted by the City Council by Ordinance No. 3566 on November 14, 1972. A map showing the boundaries of the CCRP is attached as Exhibit 1.

The Plan was substantively amended in August 1977. Over the years, the Plan has been amended many times to address changes in state law. The last amendment was in 2006 which extended the effectiveness of the Plan to August 30, 2015.

Critical Time Limits

The Health and Safety Code imposes several critical limits and other restrictions on an agency's activities including:

1. A limitation on the cumulative amount of dollars of taxes that may be divided and allocated to the redevelopment agency pursuant to the plan, including any amendments to the plan. The CCRP establishes a tax increment cap of \$431.1 million. It is currently estimated that with a growth rate of 2%, the Agency will reach the tax increment cap by 2019. It is likely, however, that a larger growth rate could result in the Agency meeting its cap as soon as 2016.

2. The Plan expires 40 years after its adoption, or January 1, 2009, whichever is later. Santa Barbara Ordinance 5388, adopted June 6, 2006, extended the effectiveness of the CCRP to August 30, 2015.

3. A redevelopment agency may not pay indebtedness or receive property taxes pursuant to Section 33670 after 10 years from the termination of the effectiveness of the redevelopment plan. The Agency may pay indebtedness and receive tax increment until August 30, 2025.

4. A time limit on establishing loans, advances, and indebtedness to finance in whole, or in part, the redevelopment project. Santa Barbara Ordinance 4894 provides that no loans, advances or indebtedness shall be created after January 1, 2004. This limitation applies, however, only to debt secured by tax increment. Therefore, after this date, an agency can continue to incur debt and engage in authorized activities that are funded from sources other than tax increment. Sources could include proceeds of tax allocation bonds issued before the deadline, land disposition proceeds, lease revenues, developer funds, or grant funds.

5. A time limit, not to exceed 12 years, for commencement of eminent domain proceedings to acquire property within the project area. According to Santa Barbara Ordinance No.5424 (adopted July 31, 2007), eminent domain may be used to acquire real property until August 30, 2019 or the expiration of the CCPR, whichever is sooner.

Blighting Conditions in Santa Barbara

At the onset of redevelopment activity in the Project Area, a number of factors characterized the blighting conditions within the CCRP (see Exhibit 1): land parcels of inadequate size to meet parking demand on site in some areas; incompatible land uses in the waterfront area; and, structures that were deteriorated or of inadequate size for existing standards and market conditions. Other problems to be resolved were: buildings needing seismic reinforcement; congested streets and inadequate public parking facilities in some areas; the condition of public improvements including street lighting; and, the lack of public restroom facilities. Economic blight within the CCRP was evidenced by the decline in assessed property values, business turnover, and empty storefronts in the downtown, business relocations, and the lack of necessary commercial facilities to serve residents of the CCRP. Poor economic conditions suggested some Agency assistance was necessary to make the improvements that would encourage property owner responsiveness to the market.

Redevelopment Accomplishments

Since its inception, the Redevelopment Agency has received more than \$233 million in tax increment funding through Fiscal Year 2009. These funds have been used to pursue efforts towards redevelopment and affordable housing activities in the CCRP. Redevelopment-related projects have been focused on blight removal and the elimination of the influences that lead to blight.

The Redevelopment Agency Board has long realized the importance of a vibrant arts community as an ingredient to a successful downtown. To this end, the Agency Board has approved more than \$13 million in community grants since 1992. These grants have played a key role in the continued success of the local arts community and provided the infrastructure necessary for the arts community to continue to succeed many years into the future. A summary of these grants can be found in Exhibit 2.

CURRENT STATUS OF REDEVELOPMENT IN SANTA BARBARA

The Redevelopment Agency currently holds title to 55 parcels of real property that total more than 36 acres within the CCRP. The largest category of acreage is 12.23 acres of land dedicated to various CCRP parking lots and structures including parking structures #1 (Paseo Nuevo Lot #1 is privately operated by Paseo Nuevo), #2 (Nordstrom's), #6 (Granada Garage), #10 (Ortega Garage) and surface lots #11 and #12. Other sizeable land categories include the land on which the Paseo Nuevo Mall is constructed (6.29 acres); the Santa Barbara Railroad Depot, which is listed on the National Register of Historic Structures; and Chase Palm Park. Although listed as part of the railroad station properties, the Redevelopment Agency is currently in the process of negotiating a Disposition and Development Agreement and a long term lease with the Santa Barbara Children's Museum for Agency-owned property located at 125 State Street. A detailed list of the parcels including address, property description, acreage, and square feet can be found in Exhibit 3.



Unimproved properties account for approximately 2.71 acres. All of the parcels are under discussion for development.

Agency General Fund Revenue, Expenditures, and Changes in Fund Balance

The following table provides a 10-year history of revenues, expenditures, and changes in fund balance for the Agency General Fund. Tax increment revenue is the primary source of revenue and has steadily increased 95.8% (\$7.1 million) from \$7.4 million in 1999 to \$14.5 million in 2008. Over the 10-year period, annual increases averaged \$643,000 (6.2%) with a high of \$1.2 million (16.2%) in 2001 and a low of \$75,000 (0.7%) in 2004. As discussed in other sections, this revenue source will expire either (i) in 2019 when the Agency debt is fully paid, (ii) sooner if the Agency meets the tax increment cap, or (iii) the statutory end date of 2025. Net transfers are generally intra-fund transfers within the Agency. Proceeds from bond issuance total \$73.4 million over the 10-year period to fund various projects; however, since 2003, the Agency has been unable to issue any more debt and there will be no future bond proceeds.

RDA General Fund Change in Fund Balances of Governmental Funds Last Ten Fiscal Years (amounts expressed in thousands)										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Incremental property taxes	\$ 7,388	\$ 7,699	\$ 8,946	\$ 9,483	\$ 10,281	\$ 10,356	\$ 11,157	\$ 12,218	\$ 13,465	\$ 14,465
Investment income and rents	579	683	1,068	1,900	1,850	1,997	1,909	1,753	1,789	2,758
Other revenues	1,477	1,411	16	-	10	-	119	2,056	21	642
Total revenues	9,444	9,793	10,030	11,383	12,141	12,353	13,185	16,027	15,275	17,865
Expenditures										
Supplies and services	599	601	619	1,067	1,112	1,175	1,319	1,435	1,550	1,553
Projects	5,897	1,874	6,641	4,576	4,183	3,352	13,039	23,640	11,275	6,228
Other expenditures	12	13	11	11	20	26	15	10	11	16
Debt service										
Principal	3,225	3,410	3,600	4,345	3,985	5,210	4,535	4,720	4,920	4,405
Interest	2,236	2,058	1,868	2,777	3,239	3,075	3,700	3,512	3,314	3,107
Other charges	-	-	-	-	-	941	305	-	-	-
Total expenditures	11,969	7,956	12,739	12,776	12,539	13,779	22,913	33,317	21,070	15,309
Excess of revenues over (under) expenditures	(2,525)	1,837	(2,709)	(1,393)	(398)	(1,426)	(9,728)	(17,290)	(5,795)	2,556
Other financing sources (uses)										
Transfers in	6,230	7,398	7,486	14,420	8,315	9,502	9,015	8,213	10,571	12,491
Transfers out	(6,230)	(7,398)	(7,486)	(14,424)	(8,315)	(9,502)	(9,014)	(8,213)	(12,571)	(12,503)
Proceeds from bond issuance	-	-	-	37,810	-	28,398	7,150	-	-	-
Total other financing sources (uses)	-	-	-	37,806	-	28,398	7,151	-	(2,000)	(12)
Net change in fund balances	\$ (2,525)	\$ 1,837	\$ (2,709)	\$ 36,413	\$ (398)	\$ 26,972	\$ (2,577)	\$ (17,290)	\$ (7,795)	\$ 2,544

Expenditures consist almost entirely of projects, supplies & services, and debt service costs. Total expenditures have fluctuated significantly, primarily due to the annual costs of projects over this 10-year period. The large expenditures in 2005-2007 were primarily due to the construction of the Granada Garage. Project costs will continue in future years until the expiration of the CCRP or until available funds are fully expended. Debt service costs have varied over the years as debt has been repaid and new debt has been issued. As shown below, debt service expenditures will continue at approximately \$7.5

million per year until the debt is fully repaid in 2019. Supplies & services expenditures are primarily costs paid to the City of Santa Barbara pursuant to the master Administrative Agreement.

Over the past 10 years, fund balance has increased \$34.5 million as new debt has been issued to provide funds for future projects in the CCRP. Fund balance will decrease as project funds are expended, and payments are made on existing debt, over the remaining years of the CCRP. Since the Agency will not be able to issue new debt for the CCRP, we expect to see decreases in fund balance for most future years.

Agency General Fund Liabilities

RDA General Fund Long-Term Debt

	Interest Rate	Date of Issue	Maturity	Amount of Original Issue	Outstanding Balance 6/30/09
2001 Series A Tax Allocation Bonds	4.125 - 5.00%	7/25/2001	3/1/2019	\$ 38,855,000	\$ 35,520,000
2003 Series A Tax Allocation Bonds	4.00 - 5.00%	12/18/2003	3/1/2019	34,810,000	23,290,000
Total RDA General Fund Long-Term Debt				<u>\$ 73,665,000</u>	<u>\$ 58,810,000</u>

Debt Service Payments (Including Interest)

Fiscal Year Ending	2001 Tax Allocation Bonds	2003 Tax Allocation Bonds	Total
2010	\$ 4,544,972	\$ 2,970,430	\$ 7,515,402
2011	4,545,554	2,967,830	7,513,384
2012	4,546,185	2,969,080	7,515,265
2013	4,551,165	2,961,455	7,512,620
2014	4,553,565	2,959,455	7,513,020
2015	4,550,785	2,962,205	7,512,990
2016	4,557,290	2,954,205	7,511,495
2017	4,556,810	2,955,405	7,512,215
2018	4,558,750	2,956,905	7,515,655
2019	4,557,000	2,956,905	7,513,905
Total	<u>\$ 45,522,076</u>	<u>\$ 29,613,875</u>	<u>\$ 75,135,951</u>

As shown in the table above, the Agency General Fund had \$58.8 million in outstanding tax allocation bonds (TABs) at June 30, 2009. These will be paid off, with interest ranging from 4.0 to 5.0% over the next 10 years at approximately \$7.5 million per year. The \$45.5 million debt service on the 2001 TABs consists of \$35.5 million of principal repayments and \$10 million of interest. The \$29.6 million debt service on the 2003 TABs consists of \$23.3 million of principal repayments and \$6.3 million of interest.

Agency Administration

1. Staff. The Agency is responsible for the funding of 15 allocated positions, which are located in the Housing and Redevelopment Division of Community Development. There are also an additional 7 positions within the organization, which are partially or completely funded by the Agency. The annual costs for these positions are approximately \$1.5 million in salary and benefits. A breakdown of the positions and allocations under the Redevelopment Program are as follows:

<u>Position Title</u>	<u>Allocation</u>
City Administrator	10%
Community Development Director	21.3%
Housing & Redevelopment Manager	47.5%
Redevelopment Supervisor II	100%
Graphic Designer	40%
Redevelopment Specialist	100%
Redevelopment Specialist	100%
Redevelopment Specialist	100%
Administrative Specialist	50%
Administrative Specialist	50%
Administrative Services Manager	10%

2. **Administrative Agreement.** In December 2003, the Agency and City entered into an agreement wherein the Agency contracts with the City to carry out certain redevelopment activities and to provide administrative services for the Agency. The agreement, titled the Administrative Agreement, appoints certain City administrative officials to serve as the Agency's administrative officials. Compensation for the services of these officials is based on either an hourly rate or on a percentage of the officials' salary. The costs are allocated to the Agency under the Agreement. Payment is made by the Agency to the City on a fiscal year basis. The Administrative Agreement also incorporates provisions of the City's Cost Allocation agreement. This City Agreement allocates costs between various departments, and for purposes of the Agency, allocates the cost of certain services, specifically the services of the Finance Department, to the Agency pursuant to the Cost Allocation Agreement.

The Administrative Agreement also authorizes the City to incur debt necessary to carry out the activities of the Agency. The Agency must annually reimburse the City for all debt service and financing costs incurred by the City on behalf of the Agency. Finally, the City is obligated to undertake public improvements, property acquisition, recreation, housing and public transportation activities on behalf of the Agency in conformance with Redevelopment Law. The Agency must reimburse the City for all costs and expenses incurred by the City in undertaking this activity.

Total payments and reimbursements paid to the City by the Agency under the Agreement may not exceed \$303 million. The agreement expires ten years after the effective life of the CCRP. The Administrative Agreement will expire in 2025, coincident with the Agency's loss of authority to pay debt and receive tax increment.

3. **Paseo Nuevo.** Paseo Nuevo shopping center was completed in 1989 pursuant to a series of agreements that led to the Agency's assemblage of real property and construction of two parking garages. The Agency holds fee title to the land upon which two anchor retailers and one developer have constructed the shopping center and parking lot # 1. Three leases govern the terms and conditions of the shopping center operation. The lease term is 75 years. At the termination of the lease term, all building improvements (except perhaps lot # 1 parking structure) will revert to the Agency or the Agency's successor. The developer paid the Agency more than \$7.7 million for the lease. The developer lease requires the developer to pay an annual participation rent to the Agency. The rent is calculated using a complex formula based on net revenue less operating costs. To date, no participation rent has been paid.

Additionally, the developer loaned the Agency \$2 million to offset the Agency's costs. Repayment of the Agency loan is limited to payment from participation rent. Therefore, until participation rent is paid, no repayment obligation will arise. As part of the Paseo Nuevo development, the Agency also acquired and constructed parking lots 2 and 10. These lots must be used, maintained and operated as public parking for the 75-year lease term.



4. Annual Parking Agreement. In 1990, the Redevelopment Agency Board adopted a Parking Operations Agreement with the City of Santa Barbara for the operation of Agency-owned parking lots. This Agreement assigns to the City the operation and maintenance responsibilities for the parking facilities in exchange for receipt of the parking fees. The Agreement sets forth, in detail, the terms and conditions under which the parking facilities will be operated including parking rate structure, hours of operation, staffing, security, validation, and insurance. Historically, the document is amended annually to revise the amount that the Redevelopment Agency is required to pay to the City in response to Paseo Nuevo's Parking and Business Improvement Area Assessment (PBIA). Under the terms of the Agency's agreement, Paseo Nuevo's annual contribution to the shopping center's PBIA is capped at \$100,000 with the balance to be paid by the Agency. Over the past five fiscal years, the Agency has paid from \$78,192 to over \$107,000.

5. Downtown Shuttle Payment. As a mitigation measure developed as part of the CCRP environmental impact report (1977), the Agency is required to annually pay \$300,000 into the City's Transportation Management Program. The annual contribution is aimed at encouraging the use of alternative modes of transportation. The shuttle is intended to offset the adverse environmental impacts resulting from increased downtown traffic.

6. Property Management. The Redevelopment Agency is responsible for many activities related to the safe operation and upkeep of its properties. These property management activities include contractual obligations delineated in certain disposition and development agreements, responding to graffiti issues, responding to vandalism issues, remediation of hazardous materials on the properties, as well as general safe upkeep of the properties. These obligations vary from year to year but generally fall between \$100,000 - \$125,000 per year.

7. Community Arts. The Redevelopment Agency since 1992 has provided more than \$13 million in grants to various community organizations. These grants have been used for various capital improvements to arts facilities in the CCRP. Much of the \$13 million has been used by the various grantees to develop capital improvements that are less likely to garner the financial support of donors due to their lack of public appeal or presence. Behind-the-scenes capital improvements that provide the foundation for a successful arts facility, but are rarely seen by the general public, are those that have generally been requested and funded by the Redevelopment Agency. These funds are often leveraged by the various community groups to garner additional financial support of the respective project or program being undertaken.

8. Downtown Organization. The Redevelopment Agency has contracted with the Downtown Organization to provide services related to the promotion of cultural arts in the CCRP. The Downtown Organization provides services that include television, radio and print media promotion, as well as promotional materials for the highly successful First Thursday series and a Downtown Host program aimed at assisting residents and tourists with their information needs.



Agency Capital Projects

The Redevelopment Agency Capital Program currently includes 20 capital projects totaling more than \$41 million. These capital projects continue to be geared towards the elimination of blight and blighting influences in the CCRP. The current capital program includes projects ranging in complexity and cost with estimated costs varying between \$156,000 to more than \$8.5 million. Some of the more significant projects include:

- Fire Station #1 Remodel: Funding for a complete renovation of the interior of the station. The renovation includes: renovate and separate dormitory and bathrooms, seismic retrofit, upgrade windows, doors, lighting, security and overall energy efficiency of the building. Plans are also underway to include a new emergency operations center.
- Police Station Locker Room and Systems Upgrade: This project would involve a comprehensive renovation of the Police Department's 1950s-era headquarters. Project components would include upgrades to the male and female locker and exercise rooms, installation of an emergency generator, and new HVAC and electrical systems.

- **Community Arts Workshop:** The Community Arts Workshop will provide a permanent facility to stage the Summer Solstice Parade each year and space for local visual and performing arts groups to use on an as-needed basis for rehearsals, performances, costume and set fabrication, workshops, and large studio space.
- **West Downtown Neighborhood Improvement Project:** This project will improve the West Downtown Neighborhood with a series of capital improvements to the Anapamu and Ortega Street pedestrian corridors. Proposed corridor improvements include upgrading pedestrian amenities such as sidewalk replacement where necessary, general landscaping improvements where appropriate, and the additional pedestrian lighting, enhanced pedestrian crosswalks, and expanded pedestrian landings on various street corners. Improvement of these two corridors will strengthen the pedestrian connection between the west downtown and downtown.
- **West Beach Pedestrian Improvement Project:** Pedestrian-oriented improvements to the area from Stearns Wharf to the Los Banos area of the Santa Barbara Harbor. Improvements will include crosswalks along Cabrillo Boulevard at Castillo Street, Bath Street, Ambassador Park, and Chapala Street, new sidewalks along the ocean side of Cabrillo Boulevard, lighting improvements to the multi-use path in the Waterfront Parking lot, and new landscaped areas along Cabrillo Boulevard.
- **Carrillo Recreation Center Renovation Project:** These funds are for an interior and exterior renovation of the popular Carrillo Recreation Center. Improvements will likely include electrical, plumbing and structural upgrades, improvement to achieve ADA compliance, and numerous other aesthetic improvements. Improvements are geared toward enhancing and preserving this important downtown City resource.



- **Mission Creek Flood Control Project at the Train Depot:** The project is intended to stimulate the larger and very important flood control project that has been in the planning stage for many years. Without the originally anticipated federal funding, progress has been difficult. Agency funds would be eligible for use to undertake the portion of the project that crosses the Agency-owned depot property. Costs for this span of the flood control project would be shared with the County and could be the impetus for making progress on the larger project. The Agency's share is estimated at \$2.5 million.

- 217 Helena Avenue. Possible site for the Helena Parking Lot.
- Carrillo/Chapala Mixed Use The Agency and MTD had been attempting to partner to redevelop the present transit center at City parking lot #3 into a mixed-use, transit-oriented development incorporating public and private parking, a mix of housing types (including affordable), and a new MTD transit center. This proposal is currently on hold.

Visitor Center Condominium: As part of the development of the Entrada Santa Barbara Project, the Redevelopment Agency has the opportunity to purchase commercial condominium space from the developer at an as yet to be determined amount. This project is waiting further progress on the Entrada project.

Significant proposed capital projects include the following:

- Library Plaza: The concept is conceived as an opportunity to enhance the Anapamu frontage of the Central Library to coincide and coordinate with the Agency improvements at Jardin de las Granadas across the street. Concepts include the possibility of creating a sculpture garden and an open, comfortable public space. The project would complete the slate of redevelopment improvements in this key civic space.
- Lower Milpas Improvements: Streetscape improvements, including lighting and sidewalks, would assist this neighborhood and the City in providing a more aesthetically pleasing environment and possibly counteracting the perceived operational impacts of the homeless services in the neighborhood.
- Fire Station No. 1 - Administration Annex Improvements: This project would renovate the former muffler shop to provide administrative office space for the Fire Department. Currently, the Fire Department's administration offices are located off site on leased property at 925 De la Vina Street. This renovation would put all Fire Department Administration personnel in the same location at Fire Station No. 1. Estimated cost of the renovation is approximately \$3.75 million.



- Cabrillo Arts Pavilion and Bathhouse Improvements: The Bathhouse is an important community resource and is need of significant renovation. Renovation of the facility would likely be focused on the bottom floor for the building that opens to East Beach.

- Chase Palm Park Carousel Purchase: The carousel, a very visible component of the park, is leased from a private owner/operator. The lease with the City is due to expire and the owner/operator no longer wishes to lease or operate the carousel but would prefer to sell it to either the City or to an outside buyer that would relocate the carousel. Purchase at an estimated cost of \$650,000 by the Agency would preserve the carousel in place.
- Parking Structure Improvements: The Public Works Department has identified a number of needed improvements to the Agency-owned Parking Structures 2, 9, and 10. The estimated cost at the preliminary discussion stage is \$5.5 million.

CURRENT STATUS OF AFFORDABLE HOUSING

The Redevelopment Agency will set aside approximately \$3.6 million for affordable housing in Fiscal Year 2009. The Agency has been in the vanguard among California Redevelopment Agencies in the provision of affordable housing. Because the CCRP was adopted in the early 1970s, many of the housing obligations later imposed on redevelopment agencies do not apply to the CCRP. Nonetheless, the Agency has met or exceeded its 20% set aside requirement in each year of its existence.

A significant portion of the Agency's Housing Fund is utilized to provide housing providers with low or zero interest loans or grants for land acquisition or construction purposes. With one exception, the Agency does not take title to the land used for the housing. The Redevelopment Agency uses its funding to leverage and contribute to a mix of funding sources used to fund development of affordable housing. The Agency does, however, retain ownership of the parcel occupied by 12 affordable rental units. The site is under long-term lease to People's Self Help Housing.

As previously noted, the Agency's Housing Fund provides low or zero interest loans for land acquisition and construction projects. In addition to these loans to developers, the Agency's Housing Fund provides loans to low and moderate income households for a variety of purposes allowed under the rules governing the Low-Mod Housing programs. As of June 30, 2008, the Housing Fund had approximately \$42 million in outstanding loans receivable, with interest rates ranging from 0% to 4.5% and repayment periods up to sixty years.

The Agency's Housing Fund held cash and investments totaling \$4.8 million at June 30, 2008. Use of cash and investments is restricted to the purposes allowed in the Housing Fund.



Affordable Housing Accomplishments

	RDA	CDBG	SEMP	HOME	STATE HCD	HUD	Below Market Sale	General Fund	Other Financing	Total City Financing
Grand Total (1975-present)	\$63,371,355	\$23,311,816	\$2,286,666	\$10,105,059	\$1,886,500	\$1,782,000	\$8,512,400	\$408,082	\$304,784	\$111,968,662

Property Type	Affordable Units	Low Income	Moderate Income	Middle Income	Upper Middle Income	Total Units
Long Term Affordability (Covenant or Non-profit owner) Rental (not Sr. only)	1,305	1,191	114			1,305
Rental – senior only	1,237	1,097	140			1,237
Ownership	286	15	271	45	2	340
Owner-occupied Mobile Home	70	70				70
Group	400	400				400
Secondary Dwelling	9	9				11
Predevelopment						0
Ownership-HRLP owner occupied	567	567				567
Rental-senior only no affordable units						0
Section 8	1,320	1,320				1,320
Totals	5,194	4,669	525	45	2	5,241

According to Redevelopment law, affordable housing tax increment set-aside funds may be used only to preserve, create and enhance affordable housing which consists of housing affordable to low and moderate income families (as defined). It may not be used to provide housing for middle income families. Therefore, “Affordable Housing” for purposes of the chart above includes only the low and moderate income categories.

Agency Housing Fund Revenue, Expenditures, and Changes in Fund Balance

The table below provides a 10-year history of revenues, expenditures, and changes in fund balance for the Agency Housing Fund. Since the Housing Fund Tax Increment revenue is 20% of the total Tax Increment, growth in the Housing Fund mirrors the growth in the General Fund. Tax increment revenue is the primary source of revenue and has steadily increased 95.8% (\$1.8 million) from \$1.8 million in 1999 to \$3.6 million in 2008. Over the 10-year period, annual increases averaged \$161,000 (6.2%) with a high of \$312,000 (16.2%) in 2001 and a low of \$19,000 (0.7%) in 2004. As discussed in other sections, this revenue source will expire in 2019 when the Agency debt is fully paid, sooner if the tax increment cap is met before 2019, or no later than 2025.

RDA Housing Fund Change in Fund Balances of Governmental Funds Last Ten Fiscal Years (amounts expressed in thousands)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Incremental property taxes	\$ 1,847	\$ 1,925	\$ 2,237	\$ 2,370	\$ 2,570	\$ 2,589	\$ 2,789	\$ 3,055	\$ 3,366	\$ 3,616
Use of money and property	695	723	923	670	610	411	445	865	541	518
Other revenues	14	1	1	4	1	2	1	-	5	3
Total revenues	<u>2,556</u>	<u>2,649</u>	<u>3,161</u>	<u>3,044</u>	<u>3,181</u>	<u>3,002</u>	<u>3,235</u>	<u>3,920</u>	<u>3,912</u>	<u>4,137</u>
Expenditures										
Supplies and services	281	288	310	299	362	452	501	631	721	790
Projects	107	339	297	13	325	768	167	1,480	-	92
Other expenditures	10	15	5	64	16	12	4	4	-	61
Debt service										
Principal	-	-	-	-	-	-	-	470	430	440
Interest	-	-	-	-	-	34	92	255	243	229
Other charges	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>398</u>	<u>642</u>	<u>612</u>	<u>376</u>	<u>703</u>	<u>1,266</u>	<u>764</u>	<u>2,840</u>	<u>1,394</u>	<u>1,612</u>
Excess of revenues over (under) expenditures	2,158	2,007	2,549	2,668	2,478	1,736	2,471	1,080	2,518	2,525
Other financing sources (uses)										
Transfers in	-	-	-	-	-	-	-	-	2,000	-
Transfers out	-	-	-	-	-	-	(1)	-	-	(3)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>2,000</u>	<u>(3)</u>
Net change in fund balances	<u>\$ 2,158</u>	<u>\$ 2,007</u>	<u>\$ 2,549</u>	<u>\$ 2,668</u>	<u>\$ 2,478</u>	<u>\$ 1,736</u>	<u>\$ 2,470</u>	<u>\$ 1,080</u>	<u>\$ 4,518</u>	<u>\$ 2,522</u>

Approximately 96% of fiscal year 2008 expenditures consist of projects, supplies and services, and debt service costs. Total expenditures have fluctuated significantly over the 10-year period, primarily due to the annual costs of projects and debt service on Housing Fund debt. Debt service costs have varied over the years as debt has been repaid and new debt has been issued. As shown below, debt service expenditures will continue between \$636,650 and \$1.6 million per year until the debt is fully repaid in 2019. Supplies and services expenditures are primarily costs paid to the City of Santa Barbara pursuant to the Administrative Agreement by the Agency. Over the past 10 years, fund balance has increased to \$24.2 million as revenues have exceeded expenditures in each year. Fund balance will decrease as project funds are expended, and payments made on existing debt, exceed the revenues in future years.

As shown in the table below, the Agency Housing Fund had \$6.1 million in outstanding long-term debt at June 30, 2009. These will be paid off, with interest ranging from 2.0 to 5.0%, over the next 10 years at approximately \$640,000 per year from 2010 through 2018. The \$6.4 million debt service on the 2004 tax allocation bonds consists of \$5.4 million of principal repayments and \$421,720 of interest. The \$750,000 California Housing Finance Agency loan will be repaid in fiscal year 2010, including \$220,370 in accrued interest.

RDA Housing Fund Long-Term Debt					
	Interest Rate	Date of Issue	Maturity	Amount of Original Issue	Outstanding Balance 6/30/09
2004 Series A Tax Allocation Bonds	2.00 - 5.00%	7/1/04	7/1/19	\$ 7,150,000	\$ 5,355,000
California Housing Finance Agency (CHFA)	3.00%	10/19/99	10/19/09	750,000	750,000
Total RDA General Fund Long-Term Debt				<u>\$ 7,900,000</u>	<u>\$ 6,105,000</u>

Debt Service Payments (Including Interest):

Fiscal Year Ending	2004 Tax Allocation Bonds	CHFA Loan	Total
2010	\$ 643,075	\$ 970,370	\$ 1,613,445
2011	640,115	-	640,115
2012	640,415	-	640,415
2013	640,265	-	640,265
2014	643,365	-	643,365
2015	645,005	-	645,005
2016	640,965	-	640,965
2017	640,265	-	640,265
2018	643,250	-	643,250
Total	<u>\$ 5,776,720</u>	<u>\$ 970,370</u>	<u>\$ 6,747,090</u>

Agency Housing Administration

The Agency is responsible for the funding of 15 allocated positions, which are located in the Housing and Redevelopment Division of Community Development. There are also an additional 7 positions within the organization, which are partially or completely funded by the Agency. The annual costs for these positions are approximately \$1.5 million in salary and benefits. A breakdown of the positions and allocations under the Housing Division are as follows:

<u>Position Title</u>	<u>Allocation</u>
Community Development Director	25.7%
Housing & Redevelopment Manager	48%
Community Development Program Supervisor II	36%
Housing Programs Supervisor II	100%
Housing Programs Specialist	100%
Housing Loan Officer	25%

Project Planner	90%
Project Planner	50%
Administrative Specialist	50%
Administrative Specialist	50%

Below is a partial listing of recently constructed housing projects and those projects that are approved and will be constructed and funded with Agency set-aside funds in the coming years.

Housing Authority of the City of Santa Barbara (Housing Authority)



Artisan Court (416-424 East Cota Street & 517 Olive Street) – Planned new construction of 55 units of affordable rental housing for the homeless and low income downtown workers. Agency provided a \$2 million acquisition loan in 2006 and has been asked to contribute additional funds for construction. Agency staff will be responsible for monitoring rent and income restrictions that will apply for 60 years from the date of completion pursuant to a recorded covenant.

512-518 Bath Street (Bradley Property) – Planned new construction of approximately 60 units of affordable rental housing for the homeless and low income downtown workers. Agency provided a \$4.8 million acquisition loan in 2008 and may be asked to contribute additional funds in 2010 for construction. Agency staff will be responsible for monitoring rent and income restrictions that will apply for 60 years from the date of completion pursuant to a recorded covenant.

Security Deposit Assistance Program – The City transferred \$100,000 in federal HOME funds to the Housing Authority in 2008 for operation of a security deposit assistance program pursuant to a formal subrecipient agreement. The Housing Authority provides loans or grants to low income households who have found suitable housing but are unable to pay security deposits. Loan funds repaid under the program will be used by the Housing Authority to provide additional loans or grants to new households in need. City/Agency staff will continue to have monitoring responsibilities for as long as funds are available under the program.



Mental Health Association in Santa Barbara County (MHA)

Building Hope (617-625 Garden Street) – New construction of mixed-use building consisting of 50 units of affordable rental housing, office space and program space for MHA clients. The housing will serve low income downtown workers and low income MHA clients. The Agency provided a permanent loan of \$6.3 Million, and the City transferred ownership of a surface parking lot to MHA in return for an equal number of parking spaces in the project's parking garage. Agency staff will be responsible for monitoring rent and income restrictions that will apply for 60 years from the date of completion pursuant to a recorded covenant.

Mercy Housing California (Mercy)

St Vincent's Gardens & Villa Caridad (4200 Calle Real) – New construction of two low income rental housing projects located on the site of the former St. Vincent's School, a 19-acre site owned by the Daughters of Charity/St Vincent's Institution that was annexed by the City. The Agency provided \$17.4 million for the two projects – one a 75-unit project for large low income families, and the other a 95-unit project for low income seniors. Both projects are occupied while off-site public improvements are still under construction. Agency staff will be responsible for monitoring rent and income restrictions that will apply until 2064 pursuant to a recorded covenant.

People's Self-Help Housing Corporation (People's)

Casas Las Granadas (21 East Anapamu Street) – New construction of 12 units of rental housing for low income downtown workers recently completed. Agency leased site to People's at a nominal rate. City provided a permanent loan of \$1.6 million for construction. Agency paid for remediation of contaminated soil on the site, creation of adjacent new walkways and open space. Agency staff will be responsible for monitoring rent and income restrictions that apply until the year 2068 pursuant to a recorded covenant.

Victoria Hotel (22 East Victoria Street) – The City and Agency provided loans totaling \$1.52 million to People's for acquisition and rehabilitation of this 28-unit single room occupancy hotel in 1999. The Agency expects to loan Peoples \$30,000 later this year for additional rehabilitation work. Agency staff will be responsible for continuing to monitor rent and income restrictions that apply until the year 2059 pursuant to a recorded covenant.

Habitat for Humanity (Habitat)

618 San Pascual Street – Planned new construction of 4 units of ownership housing for low income households. Agency provided a short-term acquisition loan of \$400,000, and the City has provided a permanent loan of \$660,000 for construction and plans to provide an operating grant of \$43,000 to Habitat. Construction is expected to start in 2009. Price and income restrictions will apply for 45-90 years from the date of completion pursuant to a recorded covenant.

Transition House

421-425 East Cota Street (Mom's Property) – New construction of mixed-use development with total of 16 units of rental housing for formerly homeless families located over ground-floor space for child care. Agency provided predevelopment loan of \$120,000. City is expected to provide a permanent loan of \$680,000 for construction. Rent and income restrictions will apply for 60 years from the date of completion pursuant to a recorded covenant.

General Monitoring Responsibilities

City/Agency staff will continue to be responsible for the monitoring the repayment of more than \$105 million in City and Agency loan funds that have been extended to developers of affordable housing (including those listed above). City/Agency staff will be responsible for continuing to monitor rent and income restrictions that apply to roughly 2,600 units of affordable rental housing (including those listed above) for varying lengths of time over the next 60 years pursuant to recorded covenants. Agency/City staff will be responsible for monitoring price and income restrictions that apply to approximately 350 units of affordable ownership housing (including those listed above) for varying lengths of time over the next 90 years pursuant to recorded covenants.

PROJECT AREA EXPIRATION IN 2015

In 2015 the CCRP will expire. The Agency, however, will remain a legally functioning public entity with limited continued authority in the Project Area. Specifically, the Agency may continue to pay previously incurred indebtedness, comply with housing obligations, if any, and enforce existing covenants, contracts or other obligations. While no new obligations may be incurred by the Agency, it may continue to own assets and carry out its existing contractual obligations. Thus, all capital projects for which funding had previously been allocated, may be continued and completed. The Agency will continue to receive tax increment in an amount necessary to pay previously incurred indebtedness and to comply with existing covenants and contracts. If the tax increment cap were not a factor, the Agency could continue to receive tax increment until 2025, the date when, by law, the Agency can pay no more debt and receive no more tax increment.

The mandate to meet the affordable housing requirements, however, could cause postponement of a plan's expiration. The law provides that if an agency has not met its legally mandated affordable housing requirements prior to plan expiration, the plan's time limits must be extended. In the Agency's case, however, the only legally mandated affordable housing requirement is the requirement that 20% of the Agency's tax increment be set aside for the purpose of expanding and conserving the community's supply of low and moderate income housing. The Agency will have met and exceeded its mandated housing obligations by 2015.

After the 2015 CCRP expiration, the Agency will continue to receive tax increment in an amount which is equal to its existing debt incurred for capital projects and affordable housing.

END OF TAX INCREMENT AND REACHING THE CAP (2019)

Under the Redevelopment law, each agency that receives tax increment financing must create a limit or cap on the total number of dollars of taxes to be allocated under the plan to the agency. The statute provides that no taxes shall be divided and allocated to an agency beyond that limit, except as necessary to comply with legally required affordable housing obligations, or if such a limit would impair any obligation or indebtedness incurred by the legislative body or agency. Thus, while an agency must establish a maximum number of tax increment dollars it will receive under its plan, once that cap is met, an agency could continue to receive tax increment if such increment were necessary for the agency to meet its legally required affordable housing obligations or to pay bonded debt.

As shown in the forecasts included in the table on the next page, with a conservative growth rate of 2%, the Agency will reach its tax increment cap of \$431.1 million in the year 2019. A larger growth rate, and one more typical of the Agency's actual growth, could result in the Agency reaching its cap as soon as 2016.

As mentioned above, the Agency's 2001 and 2002 tax allocation bonds are scheduled for payoff in 2019. If the tax increment cap were met prior to payoff of the bonds, the Agency would be legally entitled to continue receiving adequate tax increment to fully pay-off the bonds. The bond documents, however, contain a covenant indicating that should it become evident that the cap will be reached prior to pay-off; an escrow account must be established to escrow funds for future debt service in advance of reaching the cap.

REDEVELOPMENT AGENCY of the CITY of SANTA BARBARA
Central City Project Area
History of Tax Increment Revenues

Fiscal Year	Tax Increment Revenue	Percent Increase	Cumulative Tax Increment Revenue	Less: ERAF Adjustment	Cumulative Tax Increment Subject to Cap
1977	\$ 747,560		\$ 747,560	\$ -	\$ -
1978	807,795	8.1%	1,555,355	-	-
1979	602,505	-25.4%	2,157,860	-	-
1980	1,349,260	123.9%	3,507,120	-	-
1981	1,832,893	35.8%	5,340,013	-	-
1982	2,192,287	19.6%	7,532,300	-	-
1983	2,738,620	24.9%	10,270,920	-	-
1984	2,979,482	8.8%	13,250,402	-	-
1985	3,397,140	14.0%	16,647,542	-	-
1986	3,705,997	9.1%	20,353,539	-	-
1987	4,532,583	22.3%	24,886,122	-	4,532,583
1988	5,249,530	15.8%	30,135,652	-	9,782,113
1989	5,871,132	11.8%	36,006,784	-	15,653,245
1990	6,294,016	7.2%	42,300,800	-	21,947,261
1991	6,832,889	8.6%	49,133,689	-	28,780,150
1992	8,053,374	17.9%	57,187,063	-	36,833,524
1993	7,833,881	-2.7%	65,020,944	-	44,667,405
1994	7,770,191	-0.8%	72,791,135	-	52,437,596
1995	7,627,615	-1.8%	80,418,750	-	60,065,211
1996	7,601,512	-0.3%	88,020,262	-	67,666,723
1997	7,744,675	1.9%	95,764,937	-	75,411,398
1998	8,039,593	3.8%	103,804,530	-	83,450,991
1999	9,234,958	14.9%	113,039,488	-	92,685,949
2000	9,624,123	4.2%	122,663,611	-	102,310,072
2001	11,183,224	16.2%	133,846,835	-	113,493,296
2002	11,852,589	6.0%	145,699,424	-	125,345,885
2003	12,850,918	8.4%	158,550,342	-	138,196,803
2004	12,945,067	0.7%	171,495,409	-	151,141,870
2005	13,946,110	7.7%	185,441,519	1,288,109	163,799,871
2006	15,272,895	9.5%	200,714,414	1,177,824	177,894,942
2007	16,830,763	10.2%	217,545,177	-	194,725,705
2008	18,080,961	7.4%	235,626,138	-	212,806,666
2009(prelim)	19,898,201	10.1%	255,524,339	-	232,704,867
2010	20,296,165	*	275,820,504	-	253,001,032
2011	20,702,088	*	296,522,592	-	273,703,120
2012	21,116,130	*	317,638,722	-	294,819,250
2013	21,538,453	*	339,177,175	-	316,357,703
2014	21,969,222	*	361,146,396	-	338,326,924
2015	22,408,606	*	383,555,003	-	360,735,531
2016	22,856,778	*	406,411,781	-	383,592,309
2017	23,313,914	*	429,725,695	-	406,906,223
2018	23,780,192	*	453,505,887	-	430,686,415
2019	443,585	*	453,949,472	-	431,130,000
	<u>\$ 453,949,472</u>			<u>\$ 2,465,933</u>	

* Amounts in bold are projected using a 2% annual growth factor. Increasing the annual projected growth rate would cause the RDA to reach the TI cap before 2019 as follows:
(3% - 2018, 5% to 7% -2017)

Cumulative Plan TI Limit 431,130,000

The same situation holds true for the Agency housing bonds. The Agency's 2004 tax allocation bonds are scheduled to be paid off in fiscal year 2019. Again, as in the 2001 and 2003 bonds, if the cap is reached prior to pay-off, the statute provides that the Agency will continue to receive tax increment. However, again, the bond covenants require funding a debt service escrow account.

Once the tax increment cap is reached, and assuming all debt is paid and all housing obligations are met, the Agency will receive no more tax increment and essentially stop functioning.

The California Redevelopment Law provides that ten years after a plan expires, or in 2025, the Agency will lose the legal authority to pay debt or receive tax increment. As with the other time limits, this too contains the exception for payment of bonds and housing obligations.

Thus, while the statute provides for the continuation of tax increment until 2025, the actual limitation imposed by the tax increment cap will result in the loss of tax increment to the Agency once the cap is reached. This could occur as early as 2016.

Depending on whether the City decides to pursue options to continue the Agency in some form or to transfer the Agency's functions to another division in the City, at the point when the Agency no longer functions practically or legally certain legal actions should be taken. Unless the City's legislative body adopts a strategy to continue the Agency or sell the real property assets (see below), the City should adopt an ordinance accepting title to all Agency real property assets and assuming all Agency contractual relationships.

If, by 2025, the Agency has no outstanding financial or legal obligations, such as bonded or other debt, or legally binding contracts, and the City determines not to continue the Agency, the City Council may adopt an ordinance to deactivate the Agency. If, however, any of these obligations still exist, the Agency may still be deactivated if the City assumes all of the financial and legal obligations. No such ordinance may be adopted if outstanding housing obligations remain.

REDEVELOPMENT ACTIVITIES TO CONTINUE FOR THE AGENCY

Capital Projects: There still remain several major infrastructure needs that are critical to quality of life and Santa Barbara's well being. In 2009, the City received a report evaluating the state of the City's infrastructure needs from the City's Infrastructure Taskforce. The major infrastructure needs identified by the Infrastructure Financing Taskforce include:

- **Police Station Facility:** The Police Station is a dilapidated facility and should be completely replaced.
- **Police Locker Rooms:** Police Headquarters' locker rooms and exercise rooms are rundown and do not function efficiently. **Fire Station Upgrades:** Fire Station improvements, repairs and replacements are necessary to extend the useful life of the City's fire stations.

- **Aquatics Facility:** Los Baños Pool does not meet the current demand for recreational, instructional and competitive swim programs.
- **Cabrillo Bathhouse:** The Cabrillo Bathhouse is in need of substantial capital investment.
- **Library Building Renovations:** The Building was last renovated in 1980, and many areas need improvements.

Additional infrastructure needs could include:

- **Public Restroom Renovations:** Upgrades and renovations to the various public restrooms located in the project area. The provision of clean, healthy public restrooms is one of the many keys to a successful downtown.
- **Parking Structure and Parking Lot Renovations:** Upgrades and renovations to existing project area parking lots. The provision of easily accessible parking is one of the many keys to a successful downtown.

Property Management: The Redevelopment Agency holds title to more than 55 parcels of real property totaling more than 36 acres. These properties include over 12.23 acres of land dedicated to various CCRP parking lots and structures, the land on which the Paseo Nuevo Mall is constructed (6.29 acres), the Santa Barbara Railroad Depot, Chase Palm Park and a number of vacant parcels currently under consideration for future development. With these properties comes the duty to manage them responsibly. The cost for property management is born either by the Redevelopment Agency or Downtown Parking per the Annual Parking Agreement.

Paseo Nuevo: At the termination of the 75-year lease term, all building improvements (except perhaps lot # 1 parking structure) will revert to the Agency or the Agency's successor. The Agency is obligated to maintain and operate the public parking lots for the 75-year lease term.

Until the obligations are assumed by another agency such as the City, the Agency will remain responsible for the safe operation and upkeep of its properties.

Community Grants/Arts/Transportation: With the loss of tax increment, so will go the opportunity for many organizations to seek funding from the Redevelopment Agency. In order to guarantee their continued success, it is vital for the local arts community to develop a plan that identifies new and innovative ways to sustain the arts into the future.

The Santa Barbara Arts Collaborative was organized in response to this challenge. As of June 2009, the Santa Barbara Arts Collaborative has organized and developed a draft Strategic Plan to address these and other funding issues related to the arts (Exhibit 4). The Strategic Plan is a positive step forward for the local arts community in identifying future alternate funding sources.

The Redevelopment Agency currently provides \$300,000 annually to the City's Transportation Management Program. This Redevelopment Agency obligation will terminate when the project area

expires. In this case, either the service level will be reduced accordingly or the City can undertake the \$300,000 annual obligation.

ACTIVITIES TO CONTINUE FOR AFFORDABLE HOUSING

Use of Agency assets, including property and funds, has been a critical component to the successful development of more than 4,570 low and moderate income housing units in the City of Santa Barbara since the Agency's beginning in 1972.

Housing Compliance Monitoring

The Agency is legally required to monitor low and moderate income housing that is funded or otherwise made available pursuant to Redevelopment law. The Agency's current obligations for annual monitoring include a total of 1,698 units composed of the following: 336 units of owner-occupant housing, 118 units of group home housing, 70 units of owner-occupant mobile homes, 426 units of senior-only housing, and 746 units of rental housing.



Enforcement

Enforcement is critical to maintaining a viable affordable housing program. Generally, enforcement activities result from violations of the affordable housing covenants. Most violations occur through unapproved transfers such as refinancing or occupancy violations. The remedy most useful to the Agency has been its option to purchase a unit in the event of default. The Agency has used this remedy in several instances to buy back a unit that has been over-encumbered by an unapproved loan or to buy a unit from a bank in lieu of foreclosure. Funding for this program has been provided through the Housing Set Aside Fund.

Housing Development

In the last several decades, the construction of Affordable housing in the City of Santa Barbara in the last several decades has been made possible by the cooperative efforts of the City and Agency and the

non-profit housing providers. The funds and property resources made available by the Agency have been used to “leverage” other funding sources. It is only through these complex, multi-party transactions that these projects are possible. Continuing a program where the City can contribute relatively small amounts of funding or property to Affordable housing development projects should be considered. Possible funding methods are discussed below.



OPTIONS AVAILABLE TO FUND LONG-TERM NEEDS

There are several ways in which the services identified above as “critical needs” could be met. Generally, two different approaches were evaluated. The first approach assumes that the City’s legislative body determines that instead of deactivating the Agency, it pursues one of more of the several options discussed below to either (i) extend the life the existing project area in order to continue all Agency functions, (ii) extend the life of the existing project area in order to continue only the housing function of the Agency, and/or (iii) implement a new project area.

Alternatively, if the legislative body chooses to deactivate the Agency and to provide the services through a different method, a new division of the Community Development Department could be created to administer these programs. Potential funding sources for this division are discussed below.

STRATEGIES TO CONTINUE THE SUCCESSES OF THE REDEVELOPMENT AGENCY

New Project Areas

The establishment of new redevelopment project areas is one avenue that could be pursued by the City of Santa Barbara in an effort to continue the successes experienced through the Redevelopment Agency. However, the establishment of a new project area (or areas) does not address the issues relating to the CCRP that expires in 2015. The primary test for the development of a new project area centers around whether or not that area meets the definition of blight as outlined in Health and Safety Code section 33030 and 33031.

Section 33031 requires that a Redevelopment Project Area must exhibit conditions of both physical and economic blight before any redevelopment activity can occur. Among the symptoms of physical blight include buildings in which it is unsafe or unhealthy for persons to live or work (serious building code violations, dilapidation, deterioration, etc.); conditions that prevent or substantially hinder the viable use or capacity of buildings (substandard or defective design, etc.); incompatible land uses that prevent the development of parcels; and lots of irregular shape or size that prevents development thereon. Included among the symptoms of economic blight are depreciated or stagnant property values, impaired property values due in part to hazardous waste on the property, abnormally high business vacancies, abnormally low lease rates; an abnormally high number of abandoned buildings; a serious lack of public necessary commercial facilities normally found in neighborhoods; including grocery stores, drug stores, banks, etc.; serious residential overcrowding that has resulted in significant public health and safety issues; high crime rates; or an excess of bars, liquor stores, etc., that have resulted in significant public health, safety, or welfare problems. In addition, the existence of inadequate public improvements or inadequate water or sewer utilities can be considered economic conditions that cause blight. If it is generally understood that an area meets one or more of the conditions described above, then the next step is to follow the process to develop a new project area.

The information below provides a summary of the steps to implement a new project area as well as a brief analysis and recommendation of areas that have been considered as new project areas by this group.

Steps to Implement

The Redevelopment Plan is the document governing a redevelopment agency's activities, effectively acting as the Agency's charter. As such, the process to develop and implement a redevelopment plan is defined by Community Redevelopment Law.

Survey Area: The first step in development of a new Redevelopment Plan (and thus, a project area) requires the legislative body to designate a survey area by resolution to determine whether a redevelopment project within the area is feasible. The resolution must include a description of the area's boundaries. The designation of a survey area is important because the final project area for the redevelopment plan must be within the boundaries of the survey area.

Feasibility Study/Analysis: Often, prior to committing the time and expense of adopting a redevelopment plan, communities conduct, or hire consultants to conduct, a feasibility study of the survey area. The study can be completed prior to, or after the selection of a project area. The feasibility study's main focus is to make a preliminary determination of the blighting conditions in the survey area.

The legislative definition of blight has evolved significantly over the years, becoming more restrictive over time. The legislative definition of blight is found in Health and Safety Code sections 33030 and 33031 and is included as Exhibit 5 of this report.

Preliminary Plan: Once the feasibility of the development of a project area has been determined and the project area boundaries have been identified, the planning agency is required to prepare a preliminary plan for the redevelopment of the selected project area. The preliminary plan is generally a brief document that outlines the concept for redevelopment of the project area. The preliminary plan should

describe the boundaries of the area and include a general summary of land uses, the layout of the primary streets, population densities etc. The preliminary plan should also include a discussion about the how the purposes of the Community Redevelopment law will be met and how the proposed redevelopment efforts will comply and conform to the community's general plan as well as describe the impact of the project on the residents of the project area and the surrounding area.

Upon acceptance of the preliminary plan by the redevelopment agency the agency notifies all taxing agencies within the proposed project area as well as the State Board of Equalization of their intent to pursue the establishment of a redevelopment project area. This notification is also called a Statement of Preparation, and must be accompanied by a map of the project area, in conformance with criteria published by the State Board of Equalization. The Statement of Preparation must also include the equalized assessment role that the Agency proposes to use for the purposes of allocating tax increment revenues. At this point the State Board of Equalization prepare a report of their own which identifies total assessed valuation of taxable property within the project area, the affected taxing agencies, the portion of tax revenues proposed to be allocated to each taxing agency, etc.

Project Area Committee (PAC): One significant difference from the formulation of the current Central City Redevelopment Project Area is that with any new project area, a Project Area Committee would need to be established. The PAC is proposed to allow for significant input by the members of the community. In general, the PAC serves as an advisory board to the redevelopment agency, which must consult with the PAC on policy matters that deal with the planning of affordable housing activities and matters that include the displacement of residents.

Preliminary Report: At this point, the Agency is required to prepare a Preliminary Report for all of the taxing agencies that receive property tax in the proposed project area. This is a critical document in the development of a new project area as it identifies the types of blighting conditions in the project area as well as the scope and purpose of the new redevelopment plan. Information included in the preliminary report includes reasons for the selected project area, description of the economic and physical conditions in the project area, and a description of the project area that shows the area is predominantly urbanized, including the total number of acres in agricultural uses as well as urban uses. Financing details, a description of the projects proposed, and how those projects will improve or alleviate the existing project area conditions are also requirements of the preliminary report.

Redevelopment Plan: At this point, the formal preparation of the Redevelopment Plan commences. The Redevelopment Plan acts as the charter of the agency and provides for the basic authorities of the agency including goals and policies. The Redevelopment Plan includes legal description of the project area, approximate number of dwelling units, limitations on bonded indebtedness, proposed methods of financing, provisions for owner participation and a list of public improvements to be provided by the Agency. It also sets forth the time limits on incurring indebtedness, effectiveness of the Redevelopment Plan, repayment of indebtedness, as well as eminent domain. The Redevelopment Plan is then the subject of an environmental impact report.

Public Hearings and Approval: Upon completion and certification of the EIR, the agency is then required to conduct public hearings on the Redevelopment Plan per Community Redevelopment Law. Upon the completion of the public hearings, the legislative body then introduces the ordinance adopting the redevelopment plan.

Review of Possible Project Areas

The following is a brief analysis of several areas in the City that were considered possible areas for new redevelopment project areas.

Westside/Lower Westside

Description of Proposed Project Area: The Westside/Lower Westside area was identified as having the best overall opportunity to be the subject of a future Redevelopment Project Area. In terms of the identification of a survey area, the Westside Project Area (WPA) would include the area bounded by Mission Street on the North, the 101 freeway on the East, Chino Street on the West moving down to Carrillo Street to San Andres Street and encompassing the entire lower Westside to Cliff Drive on the South and Castillo Street up to the 101 freeway. Please see Exhibit 6 for a map of the proposed survey area.

Overview of Blighting Conditions: In general, the proposed WPA does not meet the general definition of economic blight as it contains properties that are almost entirely leased, property values that are relatively high and commercial facilities that are normally found in neighborhoods of this size, including grocery stores, restaurants, laundromats, etc. In terms of physical blight, the proposed WPA Area does not meet the current definition. Although it is not as aesthetically attractive as the highly successful State Street corridor, the WPA corridor is thriving economically and socially. The area is the primary commercial, social and cultural center of west Santa Barbara and as such, the vacancy rate of the commercial core appears to be extremely low. Services provided on the corridor meet the needs of the area's population, and as such, the area is very active. Although blighting conditions have been difficult to define, this is the one proposed project area we feel may deserve further consideration and review by a professional.

Airport

Description of Proposed Project Area: The city-owned airport has also been a topic of discussion regarding the possible opportunity to implement a new redevelopment project area. In particular, the area on the north side of Hollister Avenue encompasses approximately 95 acres, with 88 of those acres providing leasable space. The entire 95 acres is city-owned, which limits the receipt of tax increment revenue, as government land is not subject to property taxes. As such, the mechanism that would provide the income to finance project area activities would be possessory interest taxes paid by the various leaseholders of the City land. In 2007, this possessory interest tax generated approximately \$483,000 or \$5,488 per acre. In contrast, the CCRP generated approximately \$24,000 per acre in property tax, almost five times the rate generated by that of the airport. This disparity in tax revenue would tend to indicate that the property is, in fact, undervalued and possibly subject to blight. Possessory interest revenues could service the debt on a tax allocation bond issue in the neighborhood of a few million dollars.

Overview of Blighting Conditions: In general, the proposed airport redevelopment project area does not meet the general definition of economic blight as it contains properties that are nearly entirely leased, and provide reasonable lease rates that generate more than \$2.8 million in annual lease income. In terms

of physical blight, the proposed airport redevelopment project area does not meet the current definition. The buildings provided on the leasable area are safe, in good overall condition, and are mostly leased. In addition, in 2001 the Airport Department installed new water, sewer, communications, drainage, and streets into the proposed project area at a cost of approximately \$5.8 million. These infrastructure improvements provide the appropriate infrastructure for an attractive, leasable area.

Milpas Corridor/Eastside

Description of Proposed Project Area: The proposed Milpas Project Area that was studied includes the approximately thirteen-block Milpas corridor extending from Cabrillo Boulevard to Canon Perdido Street. The proposed Milpas Project Area is densely populated and serves as the primary commercial corridor for the eastern portion of the city of Santa Barbara. The proposed project area includes hotels/lodging opportunities on the southeast portion of the project area, and a mix of business (retail and commercial), restaurants, banking, and industrial-related commerce (stone yards, equipment rentals). The area is very active, with a constant flow of vehicle traffic, as well as pedestrian traffic on a daily basis.

Overview of Blighting Conditions: In general, the proposed Milpas Project Area does not meet the general definition of economic blight as it contains properties that are almost entirely leased, property values that are relatively high, and commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, and banks and other lending institutions. The area was the subject of initial discussions to establish a project area in the late 1990s. Redevelopment Agency staff met with a highly regarded redevelopment consultant team to develop a survey area for the proposed project area. The consultant team wasted no time in determining that under the existing definitions of blight, the area was not suitable for the establishment of a new project area. Since that time, numerous developments have taken place along the corridor, including the Milpas roundabout and many small commercial developments, including two newer buildings that contain banking institutions (Business First and Wes Com Credit Union).

The Milpas corridor is often compared to the State Street corridor and, as such, the thought of the Milpas area being blighted is based on aesthetic or physical characteristics. However, in terms of physical blight, the proposed Milpas Project Area does not meet the current definition. Although it is not as aesthetically attractive as the highly successful State Street corridor, the Milpas corridor is thriving economically as well as socially. The area is the primary commercial, social and cultural center of east Santa Barbara and as such, the vacancy rate of the commercial core appears to be extremely low. Services provided on the corridor meet the needs of the area's population, and as such, the area is very active.

Haley and Gutierrez Corridor

Description of Proposed Project Area: The proposed Haley/Gutierrez (HG) Project Area that was studied includes the two corridors extending the nine blocks from State Street on the west to Milpas Street on the east, and Haley providing the northern border and Gutierrez providing the southern border. The corridors provide two of the main arteries from the downtown area to the Milpas corridor and consist almost entirely of light industrial and commercial uses. The two corridors contain high volumes of vehicular traffic.

Overview of Blighting Conditions: In general, the proposed HG project area does not meet the general definition of economic blight, as it contains properties that appear to have a low vacancy rate, property values that are relatively high, and many commercial facilities found in similarly zoned areas. In terms of physical blight, similar to the proposed Milpas Project Area, although the area is not as aesthetically pleasing as some would like, the area boasts adequate infrastructure, the construction of buildings appears to be safe and generally lacking in significant defects, and building lots appear to be adequately used. The area, as a whole, is very active.

Plan Amendment to Extend Time

Health and Safety Code section 33333.10 allows an agency with a pre-1993 plan to amend its plan to (i) extend the time limit on the effectiveness of the plan, (ii) extend the time limit on the payment of indebtedness, and (iii) extend receipt of tax increment for an additional 10 years. New requirements are imposed on agencies that extend plans under this section including: (i) increase in set aside requirement from 20% to 30%, (ii) pre 1976 plans that are not subject to housing production requirements of 33413(b) must be amended to add them, and (iii) trigger payment of statutory pass-through payments to the taxing agencies. Additionally, the statute does not provide for an increase in the tax increment cap. Moreover, in order to support the plan amendment, the agency must be able to find that significant blight remains within the project area and that this blight cannot be eliminated without extending the effectiveness of the plan and the receipt of tax increment. Additionally, a map must be adopted with the amendment that identifies specific portions of the project area where significant blight remains. Once the new time periods take effect, except for housing set aside funds, all tax increment funds received may be spent only within the area identified on the adopted map.

Nonetheless, if blight findings could be made to support a 33333.10 plan amendment, the effectiveness of the CCRP could be extended for 10 years to 2025 and the limit on receiving increment and paying debt could be extended to 2035. New housing production requirements would be imposed and legally mandated and therefore the tax increment cap would be increased as needed to meet those requirements.

Legislative Changes to Redevelopment Law

General Redevelopment Activities

In 2002, the Legislature adopted Health and Safety Code section 33333.10 which allowed agencies with pre-1993 plans to extend the plan's effectiveness and the limits on receipt tax increment and payment of debt. The legislation clearly made such amendments difficult to attain and subject to many added limitations. Since 2002, the Legislature has tightened the limits on redevelopment agency funding even more. Redevelopment agencies today are faced with near daily attempts from the State Legislature to use redevelopment agency coffers to close the ever growing state budget gap. Legislation is frequently proposed that would allow an agency to extend its expiration dates and other limitations in exchange for relinquishing significant amounts of tax increment funds. This type of shifting recently occurred to provide additional funding to educational institutions. Even before the current state budget crisis, legislative trends favored decreasing redevelopment agency powers and not increasing them. It is unlikely that in this climate of decreasing revenues, the Legislature would be willing to consider

legislation, with the possible exception of legislation dealing with affordable housing, that extends the life or increases the funding available to redevelopment agencies in the state.

Affordable Housing Activities

Currently, the Law prohibits the deactivation of an agency until all of its legally mandated housing obligations are met. Older agencies, such as Santa Barbara's are only required to maintain and use the 20% set aside fund and to provide relocation assistance when necessary. Newer agencies are also required to meet the following housing production requirements:

Inclusionary Housing. Project areas adopted after 1975, or pre-1975 plans whose time limits have been extended pursuant to 33333.10 (AB 1290 Extension), must meet two housing production requirements: (i) at least 30% of all new or rehabilitated dwelling units developed by an agency in a project area must be affordable to low and moderate income families, of which 50% must be available for very low income families, and (ii) at least 15% of all new and substantially rehabilitated dwelling units developed within a project area by private or public entities other than the agency must be available at affordable housing costs to low and moderate incomes families. In addition, not less than 40% of these dwelling units must be available to very low income households.

Replacement Housing. Within a project area, the agency must replace any affordable housing that is destroyed or removed from the affordable housing market as a result of redevelopment activity.

The question arises, therefore, whether an agency, such as Santa Barbara, could legislatively impose these additional requirements upon itself and thereby increase its tax increment cap and time limit until these new requirements are met. Implementation of an Affordable Housing Plan would require a plan amendment. Such a plan amendment would likely be considered a "major plan amendment" under Article 12 of the Redevelopment Law and thereby trigger the payment of statutory pass-through payments to the taxing agencies. A major plan amendment would also require new findings of blight and environmental review. Moreover, it is not clear whether adoption of a "voluntary" housing plan would allow the Agency to extend its limits. Most legal advisors opine that in order to extend the statutory plan limits, the housing requirements must be legally mandated pursuant to California Redevelopment Law and not voluntarily imposed by local legislation.

Therefore, in order for the "self-imposed housing obligations" to become legally mandated, a change to the Redevelopment Law would be needed. Such legislation would contain the following elements:

1. Within the redevelopment project area, or a part thereof, the agency would commit to meet the Affordable housing production and replacement requirements listed above within a specific, limited time period.
2. Extend (or renew) the time during which an agency may incur new debt for the purpose of meeting the Affordable Housing production and replacement requirements.
3. Extend the expiration date of the plan for the period needed to meet the Affordable Housing production and replacement requirements.

4. Extend the time for receiving tax increment and paying debt incurred as needed to finance the Affordable Housing activities.
5. Increase the time during which an agency could acquire real property by eminent domain for Affordable Housing purposes.
6. Increase the tax increment cap by a sufficient amount to generate adequate increment to finance or pay debt service to realize the Affordable Housing production and replacement requirements.
7. This legislation would be similar to Health and Safety Code Section 33333.10 except that it would not require a new blight finding and a requirement that new tax increment be spent only in areas with those blighted conditions.
8. The legislation would require a “minor” plan amendment that would not trigger statutory pass-through payments.

If the Agency were to remain in effect and continue its housing function, revenue sources as described above would be available.

COMMUNITY PROJECTS AND HOUSING DIVISION

Function: The function of the proposed Community Projects and Housing Division would be much like the current Housing and Redevelopment Division. The Division would be geared towards the continued provision of capital improvements projects that enhance the economic viability of the City and provide for the development of affordable housing opportunities.

The Housing and Redevelopment Division has been responsible for many important projects during its active years and many more will come to fruition over the remaining fiscal years of the Central City Redevelopment Project Area. Over the course of its operation, the Housing and Redevelopment Division has established itself as the City’s leading division in terms of developing public outreach processes for City projects and programs. In doing so, the division has established positive professional relationships with the general public as well as with a variety of community organizations, including the Downtown Organization, the Chamber of Commerce, the County Arts Commission, the Santa Barbara School District, the Conference and Visitors Bureau, the Greater Santa Barbara Restaurant and Lodging Association, City of Santa Barbara Housing Authority, and the many non-profit organizations in the local community. These relationships and the division’s broad-based understanding of issues affecting the area provide a solid base for a new division charged with engaging neighborhoods and community organizations as part of implementing capital improvement projects throughout the city, continuing to pursue affordable housing opportunities and monitoring, and implementing a variety of community programs including the Community Development Block Grant program.

The proposed new division would be responsible for continuing affordable housing development, CDBG implementation, and implementing a far-reaching capital program. The primary difference between the proposed Community Projects and Housing Division and the current Housing and Redevelopment Division is the implementation of capital programs. Currently, capital improvements are

required to be implemented only within the 850-acre Central City Redevelopment Project Area. The new division would have the ability to implement capital projects throughout the entire city. By engaging the community and carrying out capital projects, the Community Projects and Housing Division can expand the positive impact of the current Housing and Redevelopment Division beyond the current 850-acre project area and into the entire city. In addition, although fighting blight and the influences that lead to blight would still be a primary factor in project development, other factors based on simple need or aesthetic improvements would also contribute to the development of the Community Projects and Housing Division capital programs.

Current annual costs of operation of the Housing and Redevelopment Division's professional staff of 15 are \$1.5 million. However, it is assumed that over the remaining fiscal years of the CCRP, the level of staffing will decline due to general attrition and retirement opportunities for many current employees. As identified in the Activities to Continue for the Agency section of this report, capital projects, affordable housing monitoring and development are the main activities proposed to continue for the new Community Projects and Housing Division. CDBG administration, while funded from other sources, would remain under the auspices of the Community Projects and Housing Division. Staffing levels for such a division have not yet been considered. However, a general assumption of required staffing levels for the Division to be could include: Community Projects and Housing Manager, Two Project Managers, Housing Specialist, Housing Monitoring/Enforcement Specialist, and an Administrative Specialist. Total full-time equivalents would be approximately five. Additional staff in the Community Projects and Housing Division would include the Community Programs Supervisor and a Community Development Programs Specialist, both compensated by the General Fund.

POSSIBLE FUNDING OPTIONS TO CONTINUE AFFORDABLE HOUSING AND REDEVELOPMENT ACTIVITIES

Under the scenarios discussed above, funding sources would need to be identified. The following resources would be immediately available to fund activities:

Cash: In 1989, the Agency received a \$2 million dollar loan from the Paseo Nuevo developer. Unless Annual Participation Rent as required under the lease is paid by the developer, no repayment of the loan is due during the course of the 75-year lease term. The \$2 million has continued to earn interest at the prevailing rate since 1989. These funds, together with interest earned, may be used by the Agency's successor provided that, if during any year prior to the lease expiration in 2064, Participation Rent is paid, corresponding annual loan payments plus 10% interest must be paid.

Revenue: Upon expiration of the project area, the Agency will no longer receive tax increment revenues. The increased property taxes generated due to the increased assessed valuation in the CCRP will be split between all the taxing agencies according to their original allocations. Staff estimates that the City will receive an additional \$4.8 million dollars in annual property tax revenue.

Assets: Real Property. The Agency currently holds title to approximately 36 acres of real property. Of this, approximately 33 acres are developed and 2.7 acres are undeveloped.

Sale of Property Assets: It is generally assumed that all the current landholdings of the Redevelopment Agency will be transferred at a minimal, if any, cost to the City of Santa Barbara upon expiration of the

CCRP. However, if there is no direct benefit to the City to retain ownership of the properties, the Agency could decide use the property to raise capital to support future affordable housing programs, capital improvements etc.

Properties that could be considered for sale to private parties would primarily be those that remain undeveloped upon in either 2015 or 2025. Existing developed properties of the Agency could also be sold to private entities however since many of these properties are developed with typically “public” type uses, such a privatization of the uses would raise issues and be more difficult.

Housing Funds: As of June 30, 2008, the Agency’s Housing Fund held cash and investments totaling \$4.8 million. These funds will be available to fund housing activities after the expiration of the project area in 2019; however, if any of these funds remain unexpended by 2025, all remaining funds must be transferred to either a special fund of the community or to the County or City Housing Authority. Whether transferred to a special City fund or the Housing Authority, the funds must be utilized for the purpose of providing low and moderate income housing. The funds also remain subject to the same restrictions that are applicable to redevelopment agencies under the California Redevelopment Law.

At June 30, 2008, the Housing Fund had approximately \$42 million in outstanding loans receivable, with interest rates ranging from 0% to 4.5% and repayment periods up to sixty years. Many of the loans receivable, however, are based on terms that require repayment to the Agency only after defined operating expenses are paid with a balloon payment at the end of the term. Typically, these loans are made to non-profit, low-income housing providers. It can be expected, therefore, that many of these loans will be reclassified as grants or not be repaid in part or in full to the Agency or its successor.

One dedicated funding source for housing will be the Inclusionary Housing Fund, which is estimated to yield approximately \$300,000 annually of housing in-lieu fees. Santa Barbara Municipal Code Section 28.43.130 allows the use of fund monies for upper-middle, middle, moderate, low and very-low income households. These funds, therefore, can be used to assist in the development and preservation of housing affordable to households that do not meet the qualifications of low and moderate income families.

As previously noted, the Agency is projected to receive more than \$20 million per year in tax increment revenue until the cumulative cap is reached between 2016 and 2019. If the TI cap is reached prior to 2019, the Agency will be required to escrow enough TI to make the final debt payments until they are paid off in 2019. Once TI cap is reached, and this debt is retired, the more than \$20 million dollars in annual tax increment revenues will cease. The property tax revenue will then be redistributed to the taxing agencies in the project area and The City of Santa Barbara will receive approximately 13% of the redistributed property tax revenues, which is estimated to be approximately \$2.6 million per year. Although far less than the more than \$20 million that we are currently receiving annually, the amount would allow the City of Santa Barbara to continue some of the successful housing activities of the Redevelopment Agency, albeit on a smaller scale.

Perhaps the most important decision for the success of the proposed new division would be the use of the estimated \$2.6 million in new property tax revenues by the City. Since demands for the City’s resources are always great, these revenues will likely be sought for many purposes throughout the City organization. A Council resolution dedicating these revenues to the continuation of the

“redevelopment” and low and moderate income housing needs that will continue after the CCRP expires will ensure that important funding will continue. If the revenues are not dedicated to the operations of the proposed new division in the year that Tax Increment revenue stops, redevelopment activities are likely to be permanently curtailed. However, by making this policy decision to dedicate the new property tax revenues to redevelopment activities, City Council would be assuring that the prior successes of the Redevelopment Agency and the benefits to the local community would continue.

Other Revenue: The Division could also be allocated the remaining revenue in the Agency Fund. These funds would include the Paseo Nuevo \$2 million dollar loan plus accrued interest. Again, no repayment is required unless Annual Participation Rent is paid by Paseo Nuevo.

City of Santa Barbara General Fund: The Community Projects and Housing Division could be funded by the City of Santa Barbara’s General Fund. Already squeezed for funds and making hard decisions and cuts on an annual basis, the General Fund does not appear to be a reasonable means of funding a new division or continuing the efforts of the current division whose funding source would be terminated when the Agency reaches its tax increment cap. This decision, of course, would be dependent on the economic climate at the time of Agency sunset as well as the political make-up and priorities of the City Council.

OTHER POTENTIAL FUNDING SOURCES

Other potential funding sources for redevelopment activities include several types of special districts, borrowing, and special taxes. Several of these possibilities are discussed below.

Special Assessment Districts

Special Assessments Districts are for special benefits to real property. Assessment amounts must be proportional to the special benefits received by real property. Assessment amounts must be approved by a weighted majority of the property owners in the district by a vote. The City has successfully used this technique in the past to pay for projects such as the downtown sidewalk upgrades.

The procedure for establishing an assessment district is found in the assessment law pursuant to which the district is formed, and pursuant to other generally applicable law, including Proposition 218. However, the steps typically involve the following:

- Proceedings may be initiated by petition signed by the persons proposed to be assessed or by action of the legislative body.
- An assessment engineer must prepare a report for presentation to the legislative body containing the information required by the applicable assessment law, usually: (1) a description of the improvements or services to be financed; (2) a cost estimate; (3) an assessment diagram depicting the boundaries of the assessment district and the parcels within the assessment district; (4) a description of the method of spreading the assessments throughout the assessment district; and (5) an assessment roll listing of all the parcels proposed to be assessed and the proposed assessment against the parcels.

- A weighted majority of property owners within the district must approve the assessment by ballot.
- The legislative body adopts a resolution that establishes the assessment district and either (i) levies the assessment (in the case of a one-time, installment, or bonded assessment) or (ii) levies the assessment for the first year (in the case of an annual assessment).
- The City records the assessment roll with the county recorder.
- For bonded assessments, notice is given to the property owners that they have 30 days to pay their assessments in cash. If the assessments are not paid within this time, the city may issue bonds secured by all assessments which remain unpaid.

Issuance of Improvement Bonds. For bonded assessments, the city issues bonds secured by the unpaid assessments. Annual assessment installments are collected on the property tax roll and utilized to pay debt service on the bonds.

Mello-Roos District

A Mello-Roos District is an area where a special property tax on real estate, in addition to the normal property tax, is imposed on those real property owners within a Community Facilities District. These districts seek public financing through the sale of bonds for the purpose of financing public improvements and services. These services may include streets, water, sewage and drainage, electricity, infrastructure, schools, parks and police protection to newly developing areas. A CFD is created to finance public improvements and services when no other source of money is available. CFDs are normally formed in undeveloped areas and are used to build roads and install water and sewer systems so that new homes or commercial space can be built. CFDs are also used in older areas to finance new schools or other additions to the community.

A CFD is created by a sponsoring local government agency. The proposed district will include all properties that will benefit from the improvements to be constructed or the services to be provided. A CFD cannot be formed without a two-thirds majority vote of residents living within the proposed boundaries. Or, if there are fewer than 12 residents, the vote is instead conducted of current landowners. In many cases, that may be a single owner or developer. Once approved, a Special Tax Lien is placed against each property in the CFD. Property owners then pay a Special Tax each year. If the project cost is high, municipal bonds will be sold by the CFD to provide the large amount of money initially needed to build the improvements or fund the services. The tax paid is used to make the payments of principal and interest on the bonds.

Debt Financing

Certificates of Participation

Certificates of Participation (COP), tax-exempt leases rather than bonds, are used to finance and pay back debt. COPs may be used for equipment, facilities or land use only, and are supported by lease payments to a third party for the use or construction of the facilities. COPs are modeled after the sale leaseback transactions that have been popular in commercial real estate deals for many years. If structured properly, COPs do not constitute “debt” for purposes of the state constitution. Because COPs

utilizing a lease transaction often rely upon an annual appropriation from the city's general fund, the interest rate and the cost of financing often depend upon whether the improvements to be financed and the property which is the basis for the underlying lease are essential to the functioning of the city. An installment sale transaction is frequently used if repayment of the COPs is to be secured solely from enterprise fund revenues. COPs utilizing either a lease or an installment sale transaction do not require an election.

The City of Santa Barbara had approximately \$33.4 million in outstanding COPs as of June 30, 2008 — \$2.8 million of which is the responsibility of the General Fund and is the General Fund's only long term debt. In addition there are loans, generally payable to the State of California, for various water resource and Airport projects (some marine and environmental also can be included). The City has approximately \$35.9 million in low interest loans between 2.5% and 4%, payable to the State Department of Water Resources.

Long Term Debt Financing

There are five major long-term debt financing techniques currently available to the City of Santa Barbara. Not all of these are currently in use, but may be employed in the future, depending on the situation.

1. General Obligation (GO) Bonds are for facilities or land acquisition only. GO bonds are supported by property tax increases, require 2/3 voter approval, and are appropriate for long-term financing of 25 years or more. The City currently has no outstanding GO bonds. The last GO ballot initiative, to pay for a new police station, was defeated.
2. Tax Allocation Bonds (TABS) are issued to pay for specific purposes or projects and are collateralized by future tax revenues. As of June 30, 2008, The City of Santa Barbara has no outstanding TABS; however, the Santa Barbara Redevelopment Agency (a component unit of the City of Santa Barbara) had \$69.3 million outstanding, with interest of 2.0 to 5.0%, through 2019. The TABS are to be paid from property tax increment revenues of the Agency.
3. Revenue Bonds are for facilities or land acquisition, which are appropriate for long term financing of 25 years or more. Voter approval is required according to the City Charter; but this mechanism can be used only by departments supported by user charges and cannot be used by core General Fund departments such as Police and Fire.
4. Lease Revenue Bonds are paid for with lease revenues from any facility leased to a public agency. No public vote is required to utilize this mechanism. The City of Santa Barbara does not currently employ this mechanism.

Other Options

Taxes & Fees

Special Taxes which can be used for capital or operating and maintenance projects are paid for with either increases in property taxes or sales taxes. Special Taxes can be used to support a wide variety of projects, but are of limited use to Santa Barbara, since such taxes require 2/3 voter approval.

Special “Extractions and Fees” for specific development projects, subdivision improvements, or development agreements (such as the City’s contract with Fess Parker) do not require voter approval but tend to be limited in scope. Development fees, which pay for construction but not maintenance and operations, are most commonly used in the South Coast area for traffic or transportation projects, landscaping, police service fees, or parks and recreation. Agoura Hills, Ventura, Camarillo, Moorpark, Goleta, San Luis Obispo, and Santa Barbara County have all made use of developer fees recently. Santa Barbara, however, has not charged developer fees yet. However, developer fees are an option that should be evaluated in the future particularly on new residential and mixed use development (there remain 32 new developments that may benefit from City services, for which developer fees may be appropriate).

Collateralizing Future Revenue Streams

As California’s infrastructure financing problems have grown, the State has begun to allow new financing tools such as the bonding of a portion of the gasoline tax to pay for transportation projects. The City of Oxnard recently completed a contract that allows the City of Oxnard to securitize future State gasoline taxes (by law cities and counties receive a portion of the State’s 18 cents per gallon tax on gasoline) without pledging the City’s General Fund. The capital raised will be used to improve streets and roads. Santa Barbara has not considered this option, since it would impact current revenue streams rather than rely on new funds tied to new services provided — such as new parking fees for expanded facilities, or the like. Additionally, as shown by the recent State budget actions attempting to retain or delay payment of gas taxes, bonding against future gas tax revenue can have a significant negative impact on the General Fund.

CONCLUSIONS AND RECOMMENDATIONS

The purpose of this report was to consider policy and financial issues surrounding the phasing out and ultimate expiration of the City of Santa Barbara Redevelopment Agency’s Central City Redevelopment Project Area. In addition, the group was charged with looking at possible options to continue the many successes of the Central City Redevelopment Project Area, including myriad capital improvements and the extremely important and successful affordable housing programs.

The use of Redevelopment Agency funds over the life of the Project Area has been critical to the revitalization of the downtown core. Over \$64 million dollars of tax increment set aside funds have been spent and over 5,200 units of Affordable Housing have been constructed. Numerous capital improvements have been constructed and community grants have been provided to keep Santa Barbara as a premier destination for tourists as well as a world renowned area to live. In addition to the high-profile projects completed by the Redevelopment Agency (Milagro De Ladera, El Carrillo, Casa De Las

Fuentes, Casa Esperanza, Paseo Nuevo Mall, Granada Garage, State Street Sidewalks, the Historic Railroad Depot, Chase Palm Park, etc.) many smaller-scale projects have been completed and had significant impact on the local community. Among the smaller-scale affordable housing projects with enormous community impacts are Sanctuary House, Transition House, Victoria Hotel, Faulding Hotel, and the Mental Health Association. Smaller scale capital projects have included the many grants that have gone to local non-profits in the arts community such as Granada Theatre, Lobero Theatre, State of the Art Gallery, Center Stage Theater as well as the many capital projects that make a difference every day in the project area. These include the 914 State Street public restrooms, the State/Cabrillo and Cabrillo/Garden Street public restrooms, parking structures #2 and #10, as well as surface parking lots #11 and #12. The task to define opportunities to continue the successes of the Central City Redevelopment Project Area is significant.

As a result of our thorough analysis of the Redevelopment Agency, its history, accomplishments, and future opportunities, we have identified a number of possible opportunities that need further study. It is acknowledged that there is no opportunity, to our knowledge, that would allow the City to continue the successes at their current level as the Central City Redevelopment Project Area has been a model of redevelopment success. While the analysis was detailed, the results appear to be quite simple in terms of options to pursue. We do propose that the following items be pursued with further analysis:

1. **Legislation.** Undertake efforts to implement changes to state redevelopment law as needed, to allow agencies without mandated affordable housing production requirements to impose production requirements. Along with the new production requirements, an agency would be allowed to increase its tax increment cap in an amount necessary to provide adequate funding to finance the housing production, and the plan's expiration dates would be extended to allow sufficient time to implement the new housing requirements. While an amended plan would be needed to identify the housing needs, no new blight findings would be required and no statutory pass-through payments to taxing agencies would be triggered. Legislative revisions would be limited to the Affordable Housing program as it is assumed that a general Redevelopment component would not be viable.
2. **New Project Area.** Retain a redevelopment consultant to undertake a blight study to determine whether the findings of blight could be made to support a new Westside Project Area or other areas as appropriate.
3. **Transition to a Community Projects and Housing Division.** Continue to explore the opportunity to pursue the creation of a new Division focused on capital projects on a community-wide basis and the creation of affordable housing is a primary funding source redirection of an estimated \$4.8 million in property taxes that results from the conclusion of the CCRP. Other funding includes the inclusionary housing funds and special district funding and long-term debt as needed to finance capital projects. A Community Projects and Housing Division could continue to build on the successes of the Central City Redevelopment project Area but on a more citywide basis.

We strongly encourage the City to pursue these possible opportunities and use current staff of the Housing and Redevelopment Division and City Attorney's office to further this analysis. With only five fiscal years remaining for the Central City Redevelopment Project Area, we believe it is imperative for the City to explore the possibilities identified to continue the Redevelopment Agency's many successes.